RECEIVED

JUL 2 4 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D. C. 20554

In the Matter of:	)	
	)	
Revision to Amend Part 32 Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment	)	CC Docket No. 95-60

DOCKET FILE COPY ORIGINAL

COMMENTS OF
BELLSOUTH TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. (BellSouth) through undersigned counsel, hereby submits its comments on the Commission's rulemaking proposal further described hereafter.

On March 1, 1994, the United States Telephone Association (USTA) filed a petition requesting that the Commission establish a rulemaking proceeding to increase the expense limit for certain individual items of equipment[1] from $500 to $2000, and that carriers be permitted to amortize the undepreciated embedded base of such equipment over the remaining life of the account in which the investment is recorded.

The Commission issued a Public Notice requesting comments on USTA's proposal. All of the parties filing comments except

[1] "Certain individual items of equipment" refers to equipment classified in the following accounts: 2112, 2113, 2114, 2115, 2116, 2122, 2123, and 2124. These accounts are governed by § 32.2000(a)(4).

No. of Copies rec'd 0+9
List A B C D E

MCI, supported the petition. Three parties filed reply comments also in support of the petition.

On May 31, 1995, the Commission released a Notice of Proposed Rulemaking (NPRM) inviting comments on its proposal to amend Section 32.2000(a)(4) of its rules to increase the expense limit for certain individual items of equipment from $500 to $750. The Commission also sought comments on USTA's proposal to amortize the undepreciated embedded base over the remaining life of the account in which the investment is recorded.

BellSouth submits the following comments in response to the proposed expense limit changes in the NPRM and on USTA's proposal to amortize the undepreciated embedded base over the remaining life of the account in which the investment is recorded. For the reasons discussed below, BellSouth urges the Commission to increase the expense limit to $2,000.

THE NPRM PROPOSAL TO INCREASE THE EXPENSE LIMIT FROM $500 TO $750 FALLS SHORT OF THE RELIEF NEEDED TO EFFECT MEANINGFUL CHANGE

The Commission uses the following logic to explain its proposal to increase the expense limit by only $250:

> "While generally agreeing in principle that the expense level should rise, we tentatively conclude that the $2,000 cap requested by USTA is excessive. Inflation is one factor to consider in determining the expense limit: other factors include: the increasingly competitive environment, rapid change in technology, and the fact that the limit was last changed in 1988. Since 1987 inflation rose from a base 100 to 127.0 in 1994. By this measure, an item costing $500 in 1987 would cost $635 to replace with 1994 dollars. Raising the expense

> limit to $750 would compensate for inflation over the last seven years and assuming no significant change in the rate of inflation would eliminate the need to adjust the cap for approximately five years. We also believe that by raising the expense limit above the amount indicated strictly by inflation, we recognize the increasingly competitive environment and the rapid changes in technology."

The above analysis and its related conclusion appear to be based on the premise that the $500 expense level originally established in CC Docket No. 87-135 fully compensated for factors such as inflation, the increasingly competitive environment and rapid changes in technology. However, that premise is not supported by information provided to the Commission in that proceeding, and thus provides a faulty base on which to begin the current NPRM analysis.

First, as pointed out by USTA's petition in the instant proceeding, AT&T submitted a survey in CC Docket No. 87-135, prepared by Coopers & Lybrand, which showed that in 1986 90% of the nonregulated companies surveyed were using an expense limit that was greater than $500. Second, the Commission acknowledged in its Order in CC Docket No. 87-135, released July 22, 1988, that existing Cost Accounting Standards (4 C.F.R. § 404) had, since 1980, imposed an expense limit of $1,000 on defense contractors. However, expressing concerns about the impact on revenue requirements, the Commission again granted and extremely conservative increase of $300 in the expense limit from $200 to its current level of $500.

In the current NPRM, the existing expense level of $500, plus an inflation index using 1988 as the base year, is being used to quantify what the Commission apparently considers to be the effect of inflation. The effect of such a calculation in the FCC's current proposal is to arrive at an expense level lower than the level allowed for defense contractors over the last fifteen years and lower than the level used by 90% of the nonregulated firms previously surveyed in 1986 in conjunction with CC Docket No. 87-135. BellSouth believes the analysis should be performed using the $1,000 level imposed on defense contractors in 1980 and an inflation index with 1980 as the base year. That analysis would produce an expense level of $1,770 (1,000 x 177.1), which fully supports USTA's $2,000 expense limit proposal.

THE EXPENSE LEVELS PROPOSED IN THE NOTICE SEVERELY REDUCE THE COST SAVINGS RESULTING FROM ANY CHANGE IN THE EXPENSE LIMIT

Based on the USTA proposal of $2,000, BellSouth estimated it would realize approximately $3 million in cost savings. This estimate was based on the elimination of the tracking requirements for approximately 377,000 embedded items and for approximately 44,000 of new purchases annually. In comparison, BellSouth estimates that the Commission's proposal contained in the NPRM would result in administrative cost savings of only $1 million. The activities associated with implementing any change in the expense limit (i.e., revising accounting manuals and policy guides, training employees etc.)

are significant. Thus, the Commission should seek compensating benefits at sufficient levels to justify the proposed changes. Since any change in the expense limits will require implementation of revised procedures, the Commission should only order such changes if the benefits accruing from the changes are at least equal to or greater than the cost of implementation. It would not be rational to order a change costing $1 million if that change will only save $1 million. BellSouth urges the Commission to raise the expense limit to $2,000. Such a limit would triple the cost savings represented by the current $750 proposal. Consequently, meaningful change and cost savings will result only if the Commission increases the expense limit to, or very near, the $2,000 proposed by USTA.

In the alternative, since the cost savings would be so nominal at the $750 limit proposed in the NPRM, the Commission could perhaps better allocate its limited resources by choosing to embrace USTA's petition to amend Part 32 to allow vintage amortization level accounting for these same support assets. (See: In the Matter of: Petition for Rulemaking to Amend Part 32 of the Commission Rules to Eliminate Detailed Property Records for Certain Support Assets; RM 8640). In so doing, the Commission would avoid imposing costly administrative changes on the LECs for de minimus and transitory benefits. The VAL alternative clearly provides ongoing benefits to the LECs and to their customers because it makes possible the elimination of property records currently required for large volume, low value items and eliminates the repetitive filings currently required to change the expense limit for small value items charged to the support asset accounts.

FINANCIAL AND REGULATORY IMPACTS

> At Paragraph 10 the Order states:
> "USTA claims that its proposal would be revenue neutral. We believe, however, that USTA's proposal only would be neutral with regard to recovery of the embedded investment, but not for new purchases."

The Commission seems to imply that because purchases will be shifted from capital to expense there would be a change in revenue requirements. This may be true under rate of return regulation, but BellSouth is no longer under rate of return regulation. Moreover, an argument is frequently made that a change of this nature would reduce sharing under price cap regulation. However, the Commission knows BellSouth and other price cap carriers have selected the higher productivity factor and the "no sharing" option under current price cap rules. Accordingly, BellSouth and others cannot possibly pass to ratepayers any increase in expense associated with new purchases that may be shifted from capital to expense. BellSouth's shareholders would absorb any increase in costs resulting from adoption of a new expense limit. This is exactly what occurs in the competitive environment. Finally, to the extent non-price cap carriers are affected by the expense limit change, any such impact would be minimal.

ADOPTION OF THE $750 LIMIT PROPOSED IN THE NPRM WILL MERELY PERPETUATE REDUNDANT ADMINISTRATIVE PROCESSES

As stated at Paragraph 4 of the NPRM, the Commission has raised the expense limit in 1974, 1981 and again in 1988. Based on the language in the Order, it appears that the Commission is once again making the mistake of setting the expense limit too low based on current conditions. Paragraph 9 of the NPRM, the Commission states:

> "Raising the expense limit to $750 would compensate for inflation over the last seven years and, assuming no significant change in the rate of inflation, would eliminate the need to adjust the cap because of inflation for approximately five years."

The above logic makes sense only if the base set in this proceeding is reasonable. However, as BellSouth has pointed out above, the base established in 1988 was approximately $500 below the amount imposed on defense contractors in 1980 and below the base used by 90% of the nonregulated firms surveyed for that proceeding. The current $500 limit is no longer relevant to today's competitive environment. The Commission must consider its expense limit changes in the context of today's environment, and should recognize that previous decisions have resulted in expense limits contrary to comparable levels for other industries. Raising the expense limit to $2,000 will bring the accounting practices of regulated companies closer to the practices of comparable, unregulated companies.

CONCLUSION

Based on the foregoing, BellSouth respectfully urges the Commission to adjust its expense limit to $2,000 consistent with the arguments contained herein.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.
by its Attorneys

M. Robert Sutherland
Sidney J. White, Jr.

4300 Southern Bell Center
675 West Peachtree Street, N. E.
Atlanta, Georgia 30375
(404) 529-5094

Date: July 24, 1995

CERTIFICATE OF SERVICE

I hereby certify that I have this 24th day of July, 1995, served the following party to this action, with a copy of the foregoing COMMENTS OF BELLSOUTH TELECOMMUNICATIONS, INC. referenced to CC Docket No. 95-60 by hand delivery or by placing a true and correct copy of the same in the United States mail, postage prepaid.

*ITS
2100 M Street, N. W.
Suite 140
Washington, D. C. 20037

Brenda L. Garside

Brenda L. Garside

*Hand delivered